

## Message Text

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22

ACTION NEA-10

INFO OCT-01 ISO-00 FBO-02 A-01 L-03 /017 W

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P R 130745Z APR 76

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 5127

INFO AMEMBASSY MANAMA

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DEPT FOR FBO AND LEGAL ADVISER

E.O. 11652: N/A

TAGS: ABLD, ACLM, KU

SUBJ: INCREASE IN RENTAL COSTS - KUWAIT

REF: A) KUWAIT 1586; B) MANAMA 0348

1. AS THE DEPARTMENT IS AWARE, EMBASSY KUWAIT MUST OVER THE NEXT 18 MONTHS RENEW OR RENEGOTIATE LEASES FOR MANY PROPERTIES, INCLUDING THE EMBASSY COMPOUND. IT HAS COME UNDER CONSIDERABLE PRESSURE FROM LANDLORDS FOR INCREASES OF 100-200 PERCENT ABOVE ANNUAL RATES PAID LESS THAN TWO YEARS AGO.

2. OWNERS ARE DEMANDING OR, UNDER VARIOUS PRETEXTS, SEEKING TO OBTAIN EITHER SUBSTANTIAL RENT INCREASES UNDER EXISTING LEASES OR THE RETURN OF THEIR PROPERTY. POTENTIAL DISPUTES EXIST WITH THE AMIR OF BAHRAIN (OWNER OF THE EMBASSY COMPOUND AND THREE STL VILLAS HOUSING SENIOR OFFICERS), THE DEPUTY CHIEF OF PROTOCOL (OWNER OF THE DCM'S RESIDENCE) AND MOHAMMAD QABAZARD (PROMINENT KUWAITI, WHO IS OWNER OF BLOCK OF FOUR APARTMENTS HOUSING THE MARINE SECURITY GUARD AND OTHER EMBASSY STAFF MEMBERS.) ALTHOUGH THE CIRCUMSTANCES VARY IN EACH CASE, MOST LANDLORDS ARE PROMINENT KUWAITI OR FOREIGN OFFICIALS AND CITIZENS ATTEMPTING TO "CASH IN ON" KUWAIT'S PRESENT ACUTE HOUSING SHORTAGE. THEIR PROMINENCE AND INFLUENCE MAKE IT DIFFICULT TO NEGOTIATE SATISFACTORY OR EQUITABLE RENT INCREASES. (KUWAITI COURTS IN RECENT CASES USUALLY HAVE AWARDED LANDLORDS INCREASES IN ANNUAL RATES OF UP TO

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20 PERCENT IF LEASES ARE MORE THAN FIVE YEARS OLD -- BASED ON

DETERMINATIONS THAT SUCH INCREASES ARE JUSTIFIED BY LOCATION, EXISTING RENTALS AND LOCAL INFLATION.)

3. IN MOST CASES WE ARE SEEKING TO EXERCISE OUR OPTION TO RENEW LEASES THAT ARE LESS THAN FIVE YEARS IN FORCE. WE RECOGNIZE PRESENT RENTS ARE CONSIDERABLY BELOW TODAY'S LOCAL MARKET VALUE. UNDER THE CIRCUMSTANCES, WE HAVE OFFERED A MODEST 30 PERCENT INCREASE WHICH GENERALLY HAS BEEN REJECTED BY LANDLORDS. EMBASSY LEASES CONTAIN CLAUSE IV OF THE STANDARD FBO LEASE AND BEAR APPROPRIATE SIGNATURES.

4. THE EMBASSY HAS SOUGHT LEGAL COUNSEL. LATTER HAS RECOMMENDED THAT IT TAKE APPROPRIATE LEGAL ACTION, IF NECESSARY, TO AVOID EXCESSIVE RENT INCREASES SOUGHT IN CONNECTION WITH EXISTING CONTRACTS. FOR A VARIETY OF REASONS, THE EMBASSY IS RELUCTANT TO TAKE SUCH AN EXTREME STEP. HOWEVER, IT IS PROVING DIFFICULT OR IMPOSSIBLE TO NEGOTIATE REASONABLE INCREASES WHICH THE EMBASSY BELIEVES THE USG SHOULD PAY. IT HAS OCCURRED TO US THAT THE EMBASSY'S HAND IN SUCH NEGOTIATIONS WOULD BE STRENGTHENED CONSIDERABLY IF IT COULD CITE "INSTRUCTION" FROM THE DEPARTMENT OF STATE IN ITS EFFORTS TO REACH COMPROMISE SOLUTIONS WITH ITS VARIOUS LANDLORDS. SUGGESTED LANGUAGE IS CONTAINED IN THE FOLLOWING PARAGRAPH.

5. QUOTE THE DEPARTMENT OF STATE RECOGNIZES THAT EQUITY REQUIRES SOME ADJUSTMENT TO RENTS PAID LANDLORDS IN KUWAIT UNDER SHORT AND LONG-TERM LEASES. HOWEVER, THE PROPOSED INCREASES CITED IN RECENT COMMUNICATIONS FROM THE EMBASSY AND IN CONVERSATIONS WITH THE REPRESENTATIVE OF FOREIGN BUILDINGS OPERATIONS DURING HIS RECENT VISIT TO KUWAIT ARE CONSIDERED TOTALLY UNREASONABLE. THE UNITED STATES GOVERNMENT'S INTERESTS MUST ALSO BE PROTECTED WITH RESPECT TO CONTRACTS ENTERED INTO IN GOOD FAITH. UNDER THE CIRCUMSTANCES, THE EMBASSY MAY, AT ITS DISCRETION, OFFER TO KUWAITI LANDLORDS RENT INCREASES NOT TO EXCEED 30 PERCENT PER ANNUM. UNLESS LOCAL LAW SUPPORTS LANDLORDS, THE EMBASSY IS NOT AUTHORIZED TO TERMINATE VOLUNTARILY LEASES SUBJECT TO DISPUTE OVER RENTS. IT SHOULD, INSTEAD, SEEK LEGAL COUNSEL AND TAKE SUCH OTHER ACTIONS AS DEEMED APPROPRIATE TO PROTECT USG INTERESTS. UNQUOTE.

5. RECOMMENDATIONS:

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A) THAT THE DEPARTMENT AUTHORIZE EMBASSY USE OF THE ABOVE LANGUAGE IN THE CONDUCT OF NEGOTIATIONS WITH LOCAL LANDLORDS;

B) IF THE ABOVE LANGUAGE IS DEEMED UNACCEPTABLE, ALTERNATE LANGUAGE BE PROVIDED;

C) THE DEPARTMENT PROVIDE ADVICE CONCERNING HOW TO PROCEED WITH

LEGAL ACTION TO AVOID EXCESSIVE RENT INCREASES.

6. AN EARLY RESPONSE WOULD BE APPRECIATED SINCE EMBASSY  
DESIRES TO RESOLVE THIS AWKWARD PROBLEM BEFORE THE  
ARRIVAL OF THE NEW AMBASSADOR IN MID-MAY.  
MAU

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